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SUBJECT: CHEVRONTExACO GRANTED SECOND OFF-SHORE GAS BLOCK

REF: 2003 CARACAS 4142

Classified By: AMB. CHARLES S. SHAPIRO; REASONS 1.4 (B) AND (D)

SUMMARY

1. (C) Energy Minister Rafael Ramirez announced February 19 the award of Block 3 of the off-shore Deltana Platform natural gas project to ChevronTexaco. Despite the fact that ChevronTexaco was the only bidder for the block in December 2003, ChevronTexaco de Venezuela President Ali Moshiri said he was pleased but surprised. The project was apparently kept on track as a result of representations to Chavez by Ramirez and PDVSA President Ali Rodriguez despite current political tensions over the recall referendum on Chavez's presidency. Moshiri confirmed press reports that ChevronTexaco expects to begin its drilling program in Block 2 in August and stated bluntly that he believes the Deltana Platform project is significantly ahead of the Mariscal Sucre project, the supposed keystone of natural gas development in Venezuela. A Colombia-Venezuela gas pipeline remains stalled as a result of GOV military concerns about energy integration with its neighbor. End Summary.

BACKGROUND

2. (SBU) The Deltana Platform is located in waters contiguous with Venezuela's maritime border with Trinidad and consists of 27,000 square kilometers with estimated proven gas reserves of 20-30 trillion cubic feet. The first two of five planned blocks in the project were awarded in February 2003 to ChevronTexaco and Norway's Statoil (Blocks 2 and 4 respectively), in a widely criticized bidding process. Critics disputed the transparency of a process in which the GOV designated a short list of preferred bidders. Blocks 3 and 5 were subsequently re-opened for an international bidding process in September 2003 in which 13 companies bought bid packages. In early December 2003, ChevronTexaco was the sole bidder, on Block 3 only, pledging a \$5 million bonus for the block. Block 1 is still outside the bidding process with the GOV holding talks with BP, which operates the Kapok field in contiguous Trinidadian waters. Guillermo Quintero, President of BP Venezuela Holdings, recently told econoff that progress is being made in this dialogue.

3. (C) The requirements for the first Deltana Platform bidding round required the winners to take on a minority partner within 60 days of winning the bid. ChevronTexaco took on ConocoPhillips (which Moshiri describes as a "passive partner") as its partner in Block 2. Despite the requirement, Statoil to date has not taken on a partner for Block 4. Moshiri speculated that Statoil cannot find a perspective partner willing to take on a share of the \$40 million bid price. According to the terms and conditions of the Block 2 bidding process, PDVSA may take anywhere from a 1 percent to a 30 percent share of the block once commerciality is declared. The terms and conditions for the second Deltana Platform bid round did not require the winner to take on a partner and Moshiri told econoff in December that ChevronTexaco would probably plan to operate Block 3 itself.

AWARD A PLEASANT SURPRISE

4. (C) In a February 23 meeting, ChevronTexaco de Venezuela President Ali Moshiri told econoff he was pleased but surprised the award had been made. Moshiri underlined that he had not sought to communicate with the Ministry about the bid during the three-month wait "in order to preserve the transparency of the process." Another ChevronTexaco employee confided to econoff February 22 that Moshiri had told him that Minister Rafael Ramirez and PDVSA President Ali Rodriguez had urged President Chavez to approve the award to ChevronTexaco despite the current tension in the bilateral relations between the U.S. and Venezuela. Both Ramirez and Rodriguez are reported to have said that ChevronTexaco has

been scrupulously apolitical.

15. (C) Moshiri confirmed press reports that ChevronTexaco expects to begin its drilling program in Block 2 in August. In fact, ChevronTexaco and Statoil will meet the week of March 1 to discuss sharing a drilling rig. Blocks 2 and 3 will be united into a single operational area which will benefit from the proximity of the Manatee Field in contiguous Trinidadian waters in which ChevronTexaco and British Gas (BG) both have 50 percent equity. Moshiri revealed that ChevronTexaco has just completed negotiations with BG to take over operation of the Manatee Field. Moshiri said he believes the prospects for Block 3 are as good as those for Block 4 for which Statoil paid \$40 million so, laughed Moshiri, it was cheap at \$5 million.

DISARRAY IN DEVELOPMENT OF VENEZUELA'S OTHER NATURAL GAS
RESOURCES

16. (C) The GOV has planned that the keystone project in the development of Venezuela's offshore natural gas resources would be the so-called Mariscal Sucre project. This project, which has gone through a number of incarnations over more than ten years, envisions the construction of a \$2 billion liquefied natural gas plant in Guiria on Venezuela's Paria Peninsula. Despite the signature of an MOU by project partners PDVSA, Shell and Mitsubishi in 2002, progress has been slow. Although Shell Venezuela President Joaquin Moreno told econoff on January 28 that he expects a joint venture agreement will finally be signed in August, other industry sources in Caracas are skeptical. The financing for the project may also be problematic. The GOV decided in 2001 that PDVSA would take a 60 percent share in the project. Given the company's current problems, industry sources have questioned whether it could come up with the money. The Venezuelans have offered Qatar a nine percent share of the project but a local attorney now providing legal services to PDVSA has told econoff he doubts Qatar will ultimately decide to come into the project. (Note: In fact, Ali Moshiri told econoff that, in a February 19 meeting with Minister Ramirez, the Minister had delicately asked him if ChevronTexaco would consider taking Qatar on as a partner in Block 3 of the Deltana Platform. End Note) Shell has also informed econoff that it has not yet begun lining up the financing for the multi-billion dollar project.

17. (C) Ali Moshiri stated bluntly to econoff that he believes the Deltana Platform project is significantly ahead of the Mariscal Sucre project. Noting that the Mariscal Sucre partners have an MOU spelling out the broad outlines of the business model but no license, Moshiri said that ChevronTexaco now has a license as well as a development plan spelling out how it will manage the exploration project and cost recovery as well as how it will pay sunk costs. "As soon as we find gas, we can move ahead," he said. When econoff asked whether the company has the option to take the gas out through Trinidad, he responded that the parties must mutually agree to do so. The GOV, he posited, would not agree. ChevronTexaco itself would move ahead to build the Guiria facility, he said, "if there is enough gas."

18. (C) Turning to a discussion of his competitors, Moshiri said the Ministry is disappointed with Shell and Statoil. Commenting that the Ministry of Energy and Mines "is as much a political as an energy ministry," Moshiri noted that former PDVSA President Luis Giusti is on the Shell Board and thus the current GOV believes Shell is meddling in Venezuelan politics behind the scenes. Moshiri said the Minister of Energy and Mines has also been disappointed that Statoil had not lived up to promises it made when it came into the Venezuelan market.

OTHER NATURAL GAS OPTIONS COMING

19. (C) The Ministry of Energy and Mines has announced that it will moved ahead this year with a bid round on additional off-shore exploratory areas in the Gulf of Venezuela and West Falcon in western Venezuela. Moshiri confirmed that

ChevronTexaco will also take a close look at these blocks, particularly as they are located close to the company's Venezuelan home base in Maracaibo.

COLOMBIA-VENEZUELA GAS PIPELINE

110. (C) Moshiri said he expects to meet with Colombian President Uribe and Colombian Energy Minister Luis Ernesto during their visit to Caracas for the G-15 Summit. Moshiri, whose regional responsibilities also cover Colombia, is

trying to push ahead on an MOU between Venezuela and Colombia to allow development of a cross border gas pipeline to carry Colombian gas to Venezuela. Despite the fact that the gas is desperately needed in western Venezuela for injection into oil wells as well as commercial and other industrial uses, Moshiri said ideology is driving the business and the Venezuelan military is saying "no" to the pipeline. Finally, Moshiri noted that both Venezuelan Energy Minister Rafael Ramirez_ and Colombian Minister Luis Ernesto have told him they are proud of what they have done to stop the leakage of subsidized Venezuelan gasoline into Colombia.

COMMENT

11. (C) ChevronTexaco was the only bidder on Block 3 and it would, perhaps, have been embarrassing for the GOV to reject the bid. But the bottom line is that, through deft handling, ChevronTexaco has managed to maintain an excellent relationship with the GOV and is expanding its opportunities in Venezuela.
SHAPIRO

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